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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF NOTICE OF PROPOSED)
 RULEMAKING FOR THE ENVIRONMENTAL)
 PORTFOLIO STANDARD)

DOCKET NO. RE-00000C-00-0377

**REPLY COMMENTS OF THE LAND AND WATER FUND OF THE ROCKIES,
 THE GRAND CANYON TRUST, THE ARIZONA CONSUMERS COUNCIL,
 AND THE GRAND CANYON CHAPTER OF THE SIERRA CLUB,
 REGARDING THE ENVIRONMENTAL PORTFOLIO STANDARD RULES**

The Land and Water Fund of the Rockies, The Grand Canyon Trust, The Arizona Consumers Council, and The Grand Canyon Chapter of the Sierra Club hereby submit their reply to the comments submitted by other parties on October 5, 2000 regarding the Commission's rules related to the Environmental Portfolio Standard for the State of Arizona.

These rules properly balance the benefits that can result from a resource portfolio diversified with clean energy generation, with a very modest cost that includes appropriate cost caps, and should be adopted with one minor clarification described below to promote a dynamic solar electric marketplace. As noted in our initial comments, Commission Decision No. 62506 has already engendered significant activity throughout the state in preparation for achieving the portfolio standard in 2001.

A number of the comments made on October 5 related to issues that have been previously addressed by this Commission. In particular, the comments of AEPCo raise old arguments and attach previously filed documents. The Commission should waste no additional time now

addressing these comments, particularly in light of the dramatically increased natural gas¹ and wholesale energy prices. These price increases place increasing importance on the need to develop alternative energy resources.

THE BANKING, SALE, AND TRADING OF ENVIRONMENTALLY FRIENDLY CREDITS.

The comments of New West Energy (NWE) raise an important issue regarding the banking of qualifying energy and credits that should be clarified. We agree with NWE that the ownership status of renewable credits should be clarified. As written, it appears that the developer of the environmentally friendly energy project (either an Electric Service Provider (ESP) or an independent solar electric generator) owns any and all credits applicable to the portfolio standard. It is far less clear, however, that the credits can be sold to any ESP subject to the portfolio standard without the associated electricity.

Clearly, the intent and purpose of the portfolio standard is to expand the use of environmentally friendly resources in order to capture the many economic, environmental, and other benefits that they can produce. The off-grid example in NWE's comments is right on point. We are here now in the 21st century with literally thousands of Native Americans in Arizona living without electricity. The portfolio standard creates another value for solar-generated electricity that can be sold in the marketplace, thereby improving the economics and providing an opportunity for increased electrification for rural peoples and consequent standard of living improvements. Thus, solar electric credits related to off-grid applications should be available for purchase by ESPs subject to the portfolio standard to satisfy their obligation. This is a clear win-win situation.

To take it one step further, the environmentally friendly value created by the portfolio standard should be a severable element in all instances. For instance, a solar installation located in one ESP's service territory should not be limited in its ability to sell its solar credits to another

¹ The NYMEX Natural Gas Futures Market, as of October 25, 2000, indicates that natural gas prices are not expected to fall below \$4 per million BTU over the next 16 months, even during the summer months.

ESP. We don't believe that was the intent of this rule. A dynamic marketplace for solar credits and non-solar environmentally friendly credits will help to drive costs down and avoid pockets of higher cost resources.

For example, the City of Scottsdale complained that they, as an owner of renewable generating facilities, should be exempt from the renewable surcharge. We suggest an alternative approach. By segregating the solar credit from its solar electricity, Scottsdale can sell those solar credits into the marketplace to an ESP that needs them to meet its portfolio standard requirement. We believe this is likely to more than offset the cost related to the surcharge.²

Finally, we don't believe that the portfolio standard language needs to change very much to clarify the intent described above. Paragraph I addresses this issue and presently states as follows:

"Any Electric Service Provider or independent solar electric generator that produces or purchases any solar kWh in excess of its annual portfolio requirements may save or bank those excess solar kWh for use or sale in future years. Any eligible solar kWh produced subject to this rule may be sold or traded to any Electric Service Provider that is subject to this rule. Appropriate documentation, subject to Commission review, shall be given to the purchasing entity and shall be referenced on the reports of the Electric Service Provider that is using the purchased kWh to meet its portfolio requirements."

The confusion arises because a literal reading indicates that an independent solar electric generator (whose portfolio standard requirement is zero in the year generated and in future years) can only sell its "excess" solar kWh in future years. Clearly, the portfolio standard creates no incentive for the development of independent solar electric generators under this reading. We believe an intent of this rule is to promote the development of independent solar electric generators, in turn creating a myriad of economic development benefits as well as increased customer choice. Indeed, the portfolio standard in Nevada – also a 50% solar standard – is designed strictly on a system of bankable, tradable credits.

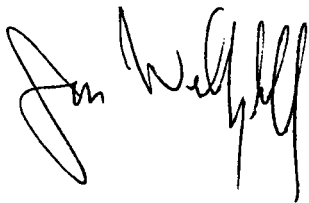
² We note that Scottsdale is the only municipal to complain about the renewable surcharge due to the multiple meter issue. We urge Scottsdale to re-examine its need for so many meters. There may be painless ways to consolidate meters that will both increase efficiency and reduce costs.

We recommend that this situation be easily resolved by inserting "current and" before "future years" in the first sentence of paragraph I.

SUMMARY AND RECOMMENDATION

The EPS as contemplated by the rules proposed in this docket is already having a positive effect on the energy market in Arizona. It is our strong belief that virtually all of the benefits and goals of the portfolio standard can be realized if the Commission will stay the course. Most if not all of the comments of October 5, 2000 opposing the portfolio standard do not raise any new issues. We urge this Commission to adopt the rules with the minor clarification noted above.

Submitted this 25th day of October, 2000.



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On behalf of the Land and Water Fund of the Rockies, the Grand Canyon Trust, the Arizona Consumers Council, and the Grand Canyon Chapter of the Sierra Club.

CERTIFICATE OF SERVICE

I hereby certify that the original and 10 copies of the REPLY COMMENTS OF THE LAND AND WATER FUND OF THE ROCKIES, THE GRAND CANYON TRUST, THE ARIZONA CONSUMERS COUNCIL, AND THE GRAND CANYON CHAPTER OF THE SIERRA CLUB, ON THE ENVIRONMENTAL PORTFOLIO STANDARD RULES were sent via FedEx to Docket Control, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007, on the 25th day of October 2000, and a true and correct copy was sent by U.S. mail, first-class and postage prepaid, to each of the following:

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